

CITY OF KANAWHA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2015

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# CITY OF KANAWHA

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Johnson	Mayor	Jan 2016
Judy Vander Ploeg	Council Member	Jan 2018
Nancy Litch	Council Member	Jan 2018
Christa Hanson	Council Member	Jan 2018
Sherrie Johnson	Council Member	Jan 2016
Ray Bassett	Council Member	Jan 2016
Sharon Grimm	City Clerk	July 2015
Earl Hill	Attorney	July 2015



# Renner & Birchem, PC

Certified Public Accountants

*"Where people who care make the difference"*

DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Kanawha adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kanawha's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions on pages 6 through 11 and 26 through 31 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2015 on our consideration of City of Kanawha's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kanawha's internal control over financial reporting and compliance.

September 15, 2015



Renner & Birchem, P.C.  
Britt, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Kanawha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 18.1%, or \$84,780 from fiscal 2014 to fiscal 2015. Property tax receipts decreased \$291 and operating grants, contributions and restricted interest increased \$4,574. Note proceeds of \$37,000 for street sweeper received.
- Disbursements increased 8.5% or \$43,746 in fiscal 2015 from fiscal 2014. Public works disbursements increased \$50,856. Culture and recreation disbursements increased \$7,109, and general government disbursements decreased \$8,526.
- The City's total cash basis net position increased 15.9%, or \$116,445 from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities increased \$48,191 and the cash basis net position of the business type activities increased by \$68,254.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information that helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$313,324 to \$361,515. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

<b>Changes in Cash Basis Net Position of Government Activities</b>		
Receipts:	Year Ended June 30,	
	2015	2014
Program receipts:		
Operating grants, contributions and restricted interest	\$ 115,409	110,862
General receipts:		
Property tax	294,431	294,720
Local option tax	70,564	55,418
Unrestricted interest	1,056	1,134
Note proceeds	37,000	
Other general receipts	36,024	7,570
Total receipts	554,484	469,704
Disbursements:		
Public safety	120,207	122,847
Public works	190,927	140,071
Culture and recreation	78,893	71,784
Community and economic development	815	1,669
General government	93,987	102,513
Debt service	71,464	73,663
Total disbursements	556,293	512,547
Change in cash basis net position before transfers	(1,809)	(42,843)
Transfers, net	50,000	55,000
Change in cash basis net position	48,191	12,157
Cash basis net position beginning of year	313,324	301,167
Cash basis net position end of year	\$ 361,515	313,324



The City's total receipts for governmental activities increased by 18.1%, or \$84,780. The increase in receipts included \$37,000 in note proceeds and a settlement of \$22,785 for demolition costs. The total cost of all programs and services increased by \$43,746, or 8.5%, with no new programs added this year, the increase includes purchase of a street sweeper for \$47,000.

The cost of all governmental activities this year was \$556,293 compared to \$512,547 last year. However, as shown in the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was only \$403,882 because some of the cost was paid by those directly benefiting from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$115,409). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2015 from \$110,862 to \$115,409.

<b>Changes in Cash Basis Net Position of Business Type Activities</b>		
	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 124,236	124,057
Sewer	66,754	69,427
Total receipts	<u>190,990</u>	<u>193,484</u>
Disbursements:		
Water	40,107	51,124
Sewer	<u>32,629</u>	<u>33,986</u>
Total disbursements	<u>72,736</u>	<u>85,110</u>
Change in cash basis net position before transfers	118,254	108,374
Transfers, net	<u>(50,000)</u>	<u>(55,000)</u>
Change in cash basis net position	68,254	53,374
Cash basis net position beginning of year	<u>418,674</u>	<u>365,300</u>
Cash basis net position end of year	<u>\$ 486,928</u>	<u>418,674</u>

Total business type activities receipts for the fiscal year were \$190,990 compared to \$193,484 last year. Total disbursements for the fiscal year decreased by \$12,374 to a total of \$72,736. The cash balance increased by \$68,254 during the fiscal year compared to an increase of \$53,374 last year.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Kanawha completed the year, its governmental funds reported a combined fund balance of \$361,515, an increase of \$48,191 from last year's total of \$313,324. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$59,962 from the prior year to \$191,192. Net transfers of \$97,448 were received from other funds.
- The Road Use Tax Fund cash balance decreased by \$40,559 to \$98,965 during the fiscal year. The City intends to use this money to upgrade the condition of all city roads.
- There was an increase in the Debt Service Fund cash balance of \$405 for an ending balance of \$2,638.
- The Employee Benefits Fund balance increased by \$13,855 to \$54,541 during the fiscal year.
- The Local Option Fund balance increased by \$14,564 to 14,179 during the fiscal year. \$47,448 was transferred to the General Fund.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$34,129 to \$308,342 during the fiscal year.
- The Sewer Fund cash balance increased by \$34,125 to \$178,586 during the fiscal year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on April 14, 2015 and resulted in an increase in operating disbursements related to the purchase of a used street sweeper.

## DEBT ADMINISTRATION

At June 30, 2015, the City had \$367,000 in general obligation bonds and notes, compared to \$385,000 at the end of the prior year, as shown below. The additional note was for purchase of a street sweeper.

Outstanding Debt at Year-End		
	June 30,	
	2015	2014
General obligation bonds	\$ 330,000	385,000
General obligation notes	37,000	
Total	\$ 367,000	385,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$367,000 is below its constitutional debt limit of approximately \$1,083,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Kanawha's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for various City activities. Economic factors in the area remain steady as the county unemployment rate remains one of the lowest in the state.

These among other economic factors were taken into account when adopting the budget for fiscal year 2016. Amounts available for appropriation in the operating budget are \$863,545, an increase of 3.39% from the final 2015 budget. Budgeted disbursements are expected to increase by \$212,615, including purchase of a new fire tanker truck. The City has added no major new programs or initiatives to the 2016 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$32,015 by the close of 2016. Actual amounts can and usually do differ from budgeted amounts.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Grimm, City Clerk, 121 North Main Street, Kanawha, Iowa.

## BASIC FINANCIAL STATEMENTS

## City of Kanawha

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>						
Governmental activities:						
Public safety	\$ 120,207		30,116	(90,091)		(90,091)
Public works	190,926		67,797	(123,129)		(123,129)
Culture and recreation	78,893		17,496	(61,397)		(61,397)
Community and economic development	815			(815)		(815)
General government	93,987			(93,987)		(93,987)
Debt service	71,463			(71,463)		(71,463)
Total governmental activities	556,291		115,409	(440,882)		(440,882)
Business type activities:						
Water	40,107	124,236			84,129	84,129
Sewer	32,629	66,754			34,125	34,125
Total business type activities	72,736	190,989			118,254	118,254
Total	\$ 629,027	190,989	115,409	(440,882)	118,254	(322,628)
<b>General Receipts and Transfers:</b>						
Property tax levied for:						
General purposes				\$ 155,861		155,861
Employee benefits and insurance				66,701		66,701
Debt service				71,868		71,868
Local option sales tax				70,564		70,564
Unrestricted interest on investments				1,056		1,056
Note proceeds				37,000		37,000
Miscellaneous				35,892		35,892
Sale of assets				131		131
Transfers				50,000	(50,000)	
Total general receipts and transfers				489,073	(50,000)	439,073
Change in cash basis net position				48,191	68,254	116,445
Cash basis net position beginning of year				313,324	418,674	731,998
Cash basis net position end of year				\$ 361,515	486,928	848,443
<b>Cash Basis Net Position</b>						
Restricted:						
Expendable:						
Streets				\$ 98,965		98,965
Debt service				2,638		2,638
Other purposes				68,720		68,720
Unrestricted				191,192	486,928	678,120
Total cash basis net position				\$ 361,515	486,928	848,443

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2015

	Special Revenue					Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	
Receipts:						
Property tax	\$ 155,861			66,701	71,869	294,431
Other city tax			70,564			70,564
Licenses and permits	275					275
Use of money and property	1,506					1,506
Intergovernmental	47,612	67,797				115,409
Miscellaneous	35,168					35,168
Total receipts	240,422	67,797	70,564	66,701	71,869	517,353
Disbursements:						
Operating:						
Public safety	99,405		4,215	16,587		120,207
Public works	60,808	108,356	3,184	18,579		190,927
Culture and recreation	75,041		1,153	2,699		78,893
Community and economic development	815					815
General government	79,006			14,981		93,987
Debt service					71,464	71,464
Total disbursements	315,075	108,356	8,552	52,846	71,464	556,293
Excess (deficiency) of receipts over (under) disbursements	(74,653)	(40,559)	62,012	13,855	405	(38,940)
Other financing sources (uses):						
Note proceeds	37,000					37,000
Sale of assets	131					131
Transfers in	97,448					97,448
Transfers out			(47,448)			(47,448)
Total other financing sources (uses)	134,579		(47,448)			87,131
Change in cash balances	59,926	(40,559)	14,564	13,855	405	48,191
Cash balances beginning of year	131,266	139,524	(385)	40,686	2,233	313,324
Cash balances end of year	\$ 191,192	98,965	14,179	54,541	2,638	361,515
Cash Basis Fund Balances						
Restricted for:						
Debt service					2,638	2,638
Streets		98,965				98,965
Other purposes			14,179	54,541		68,720
Unassigned	\$ 191,192					191,192
Total cash basis fund balances	\$ 191,192	98,965	14,179	54,541	2,638	361,515

See notes to financial statements.

## City of Kanawha

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2015

	Enterprise Funds		
	Water	Sewer Rental	Total
Operating receipts:			
Charges for service	\$ 124,236	66,754	190,990
Total operating receipts	124,236	66,754	190,990
Operating disbursements:			
Business type activities	40,107	32,629	72,736
Total operating disbursements	40,107	32,629	72,736
Excess of operating receipts over operating disbursements	84,129	34,125	118,254
Transfers out	(50,000)		(50,000)
Change in cash balances	34,129	34,125	68,254
Cash balance beginning of year	274,213	144,461	418,674
Cash balances end of year	\$ 308,342	178,586	486,928
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 308,342	178,586	486,928
Total cash basis fund balances	\$ 308,342	178,586	486,928

See notes to financial statements.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2015

### **(1) Summary of Significant Accounting Policies**

The City of Kanawha is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

#### **A. Reporting Entity**

For financial reporting purposes, City of Kanawha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

#### **Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board, Hancock County Development Commission, Community Fire Board and Library Board.

#### **B. Basis of Presentation**

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:



# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2015

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has elected to report all governmental funds as major funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Fund is used to account for local option tax receipts and disbursements.

The Employee Benefits Fund is used to account for property tax collected and payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

## CITY OF KANAWHA

### Notes to Financial Statements (continued)

June 30, 2015

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

#### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2015

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted for public works.

### (2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments during the year ended June 30, 2015.

#### Interest Rate Risk

The City's investment policy limits the investment of operating funds (fund expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

### (3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes		Total	
	Principal	Interest	Principal	Interest
2016	\$ 60,000	14,211	60,000	14,211
2017	73,850	12,573	73,850	12,573
2018	74,113	9,613	74,113	9,613
2019	79,381	6,615	79,381	6,615
2020	79,656	3,329	79,656	3,329
Total	<u>\$ 367,000</u>	<u>46,341</u>	<u>367,000</u>	<u>46,341</u>

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2015

### (4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

## CITY OF KANAWHA

### Notes to Financial Statements (continued)

June 30, 2015

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$12,281.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$52,893. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0013337 percent, which was an increase of 0.0014820 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$11,369, \$3,259 and (\$29,427) respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2015

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 118.645	\$ 52.893	\$ (2.590)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

### (5) Other Postemployment Benefits(OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 3 active members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$581 for single coverage for medical/prescription drug benefits and \$37 for single coverage and \$129 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2015 the City contributed \$24,295.

### (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and comp time hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation to employees at June 30, 2015, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2015</u>
Vacation	\$ <u>5,932</u>

This liability has been computed based on rates of pay in effect at June 30, 2015.

# CITY OF KANAWHA

## Notes to Financial Statements (continued)

June 30, 2015

### (7) Leases

The City of Kanawha has entered into a lease purchase agreement to lease a loader/plow. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2015.

<u>Year Ending</u>	<u>Loader/Plow</u>
2016	\$ 16,719
2017	16,765
2018	<u>16,813</u>
Total	50,297
Less amount representing interest	<u>292</u>
Present value of minimum net lease payments	\$ <u>50,005</u>

### (8) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2015.

### (9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### (10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option	47,448
	Enterprise:	
	Water	<u>50,000</u>
Total		<u>\$97,448</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

### (11) Date of Management Evaluation

The City has evaluated subsequent events through September 15, 2015, the date which financial statements were available to be issued.



## OTHER INFORMATION

# City of Kanawha

## Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

### Other Information

Year ended June 30, 2015

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
Receipts:						
Property tax	\$ 294,431		294,431	277,775	277,775	16,656
Other city tax	70,564		70,564	64,411	64,411	6,153
Licenses and permits	275		275	800	800	(525)
Use of money and property	1,506		1,506	1,325	1,325	181
Intergovernmental	115,409		115,409	122,011	122,011	(6,602)
Charges for services		190,990	190,990	211,100	211,100	(20,110)
Miscellaneous	35,168		35,168	12,700	12,700	22,468
Total receipts	517,353	190,990	708,343	690,122	690,122	18,221
Disbursements:						
Public safety	120,207		120,207	149,591	149,591	29,384
Public works	190,927		190,927	150,320	160,347	(30,580)
Culture and recreation	78,893		78,893	80,862	80,862	1,969
Community and economic development	815		815	2,000	2,000	1,185
General government	93,987		93,987	117,432	117,432	23,445
Debt service	71,464		71,464	71,713	71,713	249
Business type activities		72,736	72,736	101,000	101,000	28,264
Total disbursements	556,293	72,736	629,029	672,918	682,945	53,916
Excess (deficiency) of receipts over (under) disbursements	(38,940)	118,254	79,314	17,204	7,177	72,137
Other financing sources, net	87,131	(50,000)	37,131			37,131
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	48,191	68,254	116,445	17,204	7,177	109,268
Balances beginning of year	313,324	418,674	731,998	676,907	676,907	55,091
Balances end of year	\$ 361,515	486,928	848,443	694,111	684,084	164,359

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$10,027. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted for public works.

City of Kanawha  
Schedule of the City's Proportionate Share of Net Pension Liability

Iowa Public Employees' Retirement System  
Last Fiscal Year

Other Information

	<u>2015</u>
City's proportion of the net pension liability	.0013337%
City's proportionate share of the net pension liability	\$ 52,893
City's covered-employee payroll	\$ 123,782
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	42.73%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Kanawha  
Schedule of City Contributions

Iowa Public Employees' Retirement System  
Last 10 Fiscal Years

Other Information

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$12,281	11,369	13,015	12,259	11,147	10,408	11,193	7,419	6,814	3,909
Contributions in relation to the statutorily required contribution	(12,281)	(11,369)	(13,015)	(12,259)	(11,147)	(10,408)	(11,193)	(7,419)	(6,814)	(3,909)
Contribution deficiency (excess)										
City's covered-employee payroll	\$132,592	123,782	140,816	140,023	138,158	135,036	154,239	107,153	101,302	67,976
Contributions as a percentage of covered-employee payroll	9.26%	9.18%	9.24%	8.75%	8.07%	7.71%	7.26%	6.92%	6.73%	5.75%

See accompanying independent auditor's report.

## City of Kanawha

### Notes to Other Information – Pension Liability

Year ended June 30, 2015

#### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

#### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

## SUPPLEMENTARY INFORMATION



## City of Kanawha

## Schedule of Indebtedness

Year ended June 30, 2015

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
General corporate purpose	10/1/2007	4.00 - 4.35%	\$ 815,000	385,000		55,000	330,000	16,213
Street sweeper	4/21/2015	2.90%	37,000		37,000		37,000	
Total				385,000	37,000	55,000	367,000	16,213

See accompanying independent auditor's report.

## CITY OF KANAWHA

## Bond and Note Maturities

June 30, 2015

GENERAL OBLIGATION NOTES					
Year Ending June 30,	General Corporate Purpose Issued October 1, 2000		Street Sweeper Issued April 21, 2015		
	Interest		Interest		
	Rates	Amount	Rates	Amount	Total
2016	4.125%	\$ 60,000	2.9%		60,000
2017	4.150	65,000	2.9	8,850	73,850
2018	4.200	65,000	2.9	9,113	74,113
2019	4.300	70,000	2.9	9,380	79,380
2020	4.350	70,000	2.9	9,657	79,657
Total		\$ 330,000		\$ 37,000	367,000

See accompanying independent auditor's report.

## CITY OF KANAWHA

Schedule of Receipts By Source and Disbursements By Function  
All Governmental Funds

For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts:										
Property tax	\$ 294,431	294,720	289,911	313,092	334,442	342,808	309,714	277,321	230,406	222,467
Other city tax	70,564	55,418	56,150	55,000	47,666	65,285	59,367	46,952	49,065	51,972
Licenses and permits	275	665	665	740	370	450	450	260	265	678
Use of money and property	1,506	1,359	1,348	1,531	1,867	2,526	4,495	4,992	3,008	4,266
Intergovernmental	115,409	110,862	107,689	104,052	108,809	113,065	133,893	350,451	64,078	125,571
Charges for service								310	2,903	290
Miscellaneous	35,168	6,558	28,617	8,289	19,292	10,860	8,305	7,284	70,946	55,921
Total	<u>\$ 517,353</u>	<u>469,582</u>	<u>484,380</u>	<u>482,704</u>	<u>512,446</u>	<u>534,994</u>	<u>516,224</u>	<u>687,570</u>	<u>420,671</u>	<u>461,165</u>
Disbursements:										
Operating:										
Public safety	\$ 120,207	122,847	146,040	150,004	155,093	146,247	118,398	136,592	115,850	181,550
Public works	190,927	140,071	134,056	125,169	153,343	144,560	137,752	118,378	105,846	134,784
Culture and recreation	78,893	71,784	63,493	53,432	51,481	54,153	45,061	53,996	54,464	55,068
Community and economic development	815	1,669	1,528	1,597	575	1,733	701	6,033	1,733	2,860
General government	93,987	102,513	96,413	103,750	85,871	89,516	83,867	93,405	83,732	79,402
Debt service	71,464	73,663	70,663	93,613	117,461	116,108	109,355	105,062	358,512	58,460
Capital projects							21,784	455,722	371,642	30,096
Total	<u>\$ 556,293</u>	<u>512,547</u>	<u>512,193</u>	<u>527,565</u>	<u>563,824</u>	<u>552,317</u>	<u>516,918</u>	<u>969,188</u>	<u>1,091,779</u>	<u>542,220</u>

See accompanying independent auditor's report.



# Renner & Birchem, PC

Certified Public Accountants

*"Where people who care make the difference"*

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 15, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kanawha's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kanawha's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kanawha's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Kanawha's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-15 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-15 to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kanawha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Kanawha's Responses to Findings


City of Kanawha's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Kanawha's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Kanawha during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 15, 2015

  
Renner & Birchem, P.C.  
Britt, Iowa

City of Kanawha  
Schedule of Findings  
Year Ended June 30, 2015

**Part I: Findings Related to the Financial Statements:**

**Internal Control Deficiencies:**

I-A-15 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts functions and the cash disbursement functions are all done by the same person.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-15 Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.

Response – The City will investigate the possibility of obtaining or developing an accounting policies and procedures manual.

Conclusion – Response accepted.

**Instances of Non – Compliance:**

No matters were noted.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2015

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-15 Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-15 Questionable Disbursements – Except as noted below, no disbursements that do not meet the requirements of public purpose as defined in Attorney General’s opinion dated April 25, 1979 were noted.

Invoices are not properly cancelled upon payment.

Recommendation – Invoices should be properly cancelled to avoid possible duplicate payment.

Response – The City will properly cancel invoices when paid.

Conclusion – Response accepted.

II-C-15 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-15 Business Transactions – No business transactions between the City and City officials or employees were noted.

II-E-15 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-15 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2015

**Part II: Other Findings Related to Required Statutory Reporting: (continued)**

II-G-15 Deposits and Investments – Except as noted below, no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Amounts deposited at financial institution exceeded the maximum amount approved in the City's Depository Resolution.

Recommendation – The City should ensure amounts deposited at any financial institution do not exceed the maximum allowable per the City's Depository Resolution.

Response – The City will update its Depository Resolution.

Conclusion – Response accepted.